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November 30, 2001

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Mass. 02110

Re: Berkshire Gas Co. rates, D.T.E. 01-56

Dear Secretary Cottrell:

This is the reply brief of the Low-Income Energy Affordability Network (LEAN) et al. It is limited to seeking a remedy for the extreme price volatility of the Company's commodity gas, as passed through its purchased gas adjustment (PGA) clause. The ultimate remedy sought is a modification in Company purchasing practices so that less commodity gas is purchased at volatile spot market prices.[1]

As noted in our initial brief, Berkshire has been a leader in helping its low-income customers, with both a discount rate and the Commonwealth's longest-running low-income utility efficiency program. However, the Company has not addressed in this case the very difficult problem of volatility in its commodity price.[2] We understand that simply transferring this price risk back to the Company would be difficult for the Company and therefore seek a solution that lowers the overall price risk in the system. There is no reason why either the Company or its ratepayers should face the volatility of the spot market. To accomplish this will require guidance from this Commission.

About 40 percent of the Company's commodity gas is purchased under contracts that set prices at a spot market index.[3] Spot is the most volatile of commodity gas prices, ranging between $1.67 and $9.75 per Dth in the period September 1998 to January 2001 – a jump of almost six times.[4] The balance of Company gas purchases are for peaking and storage. Even rolling in peaking and storage prices,[5] the Company's cost of purchased gas rides a roller coaster that doubles its price at some months compared to others.[6] Indeed, last winter, the Company passed through the highest gas prices on record as they were

[1] This is, of course, not a problem limited to this Company and ultimately LEAN seeks similar relief with respect to all gas utilities in the Commonwealth.
[2] The impact of price volatility would be exacerbated by the company's proposal to increase the median R-3 heating bill by 12 percent. AG I. Brf. at 64.
[3] Exhs. LEAN 1-3, AG-12-1, AG 12-4.
[4] Exh. LEAN 1-3.
[5] Even stored gas prices have varied by a factor of more than 2. Exh . LEAN 1-4.
[6] Exh. LEAN 1-1E.

incurred with almost no relief for its residential customers, who had just gone through a period of unusually low gas prices.[7]

Such price roller-coasters are extremely difficult for all residential customers to bear. At the bottom of the economic ladder, such volatility is often impossible to cope with. Low-income families already devote about four times as much of their small incomes to energy as do other households. The thousands of families who are already struggling to both meet their gas heat bills and have enough left over for food and rent simply cannot cope with bills that double, even if they double from a relatively low level. The result is rising unpaid bills and the specter this winter of families unable to pay the bills to heat their homes. The rising unemployment and recession affects lowest-income families first and worst.

The combined effects of unemployment, recession, and last winter's skyrocketing heating bills is clearly reflected in Company residential arrears, which are more than double their level of a year ago. Most alarmingly, unpaid bills that are more than four months old are 144 percent greater than a year ago.[8]

No purpose is served by allowing the retail price to spike of a necessity such as residential heating gas, causing such a dramatic inability to pay for it. In order to control price volatility, the Department should require the Company to purchase its commodity gas on a hedged or laddered basis. Instead of buying 100 percent of non-storage gas on the spot market, the Company should be required to purchase a portfolio of diverse resources using several pricing strategies. For example, buying some supplies for future delivery at prices fixed at the time of contract can help stabilize the Company's cost of purchased gas.

Massachusetts has fallen behind in protecting its residential gas heating customers from the calamity of doubled prices. Many states require utilities to manage their portfolios in a manner that reduces price and price volatility, such as by hedging and long-term contracts. For example, New York State Electricity & Gas Co. (NYSEG) hedged more than 90 per cent of its expected demands for the summers of 2001 and 2002.[9] Similarly, Niagara Mohawk Power Corp. has proposed a ten-year rate plan under which residential electricity rates will be 95 per cent (declining to 90, then 85, per cent) hedged.[10] New York State regulatory policy requires gas utilities to take such actions:

> Local [gas] distribution companies have many ways to meet their loads; they should consider all available options … [which] may include short and longer term fixed price purchases, spot acquisitions, the use of financial hedges … While we are not directing any particular mix of portfolio options, volatility of customer bills is one of the criteria, along

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[7] Storage does have a tendency to ameliorate price spikes to some extent since it represents gas bought in the summer for winter use, i.e., is bought at a time offset by several months and of historically lower prices.
[8] LEAN-RR-2.
[9] Form 8-K at 2 (Sept. 18, 2000).
[10] Joint Proposal in NYPSC Case No. 01-M-0075 (October 11, 2001).

with other factors such as cost and reliability, that LDCs should consider … Any utility without a diversified pricing strategy will have to meet a heavy burden to demonstrate that its approach is reasonable.[11]

In Maine, the state took over the function of electricity generation procurement, insisting on multi-year bids in order to achieve price stability. After receiving no suitable bids, the state has currently locked in three-year prices for its three largest investor-owned electricity utilities. In the case of the largest utility, Central Maine Power, the rate is lower than before restructuring despite New England wholesale price volatility.[12]

Similar actions to stabilize prices have been ordered or authorized in, for example, Arkansas,[13] Colorado,[14] Georgia,[15] Idaho,[16] Iowa,[17] Kentucky,[18] Michigan,[19] Oklahoma,[20] California, Kansas, Mississippi and Missouri.[21]

For these reasons, the Low-Income Energy Affordability Network, et al. urge the Department to require the Company to modify its purchased gas acquisition practices to minimize price volatility, including by minimizing purchases at spot prices. This should be done in a way that minimizes risk to both the Company and its customers. Thus the Department's guidance should include the following elements:

- purchasing procedures shall be adjusted to include consumer price stability as a prime objective,
- purchasing procedures may therefore include forward contracts and hedging, with appropriate oversight and advance guidelines,
- the Company shall be financially protected from procedures pre-approved and prudently executed but that may, with hindsight, be seen as not least-cost, and
- the reasonable and prudent cost of procedures adopted to provide consumer price stability should be borne by those customers who benefit from them.

Respectfully submitted,
Low-Income Energy Affordability Network, et al.
By their attorney,

cc: Service List

[11] Statement of Policy Concerning Gas Purchasing Practices at 4-5, Case 97-G-0600 (April 28, 1998).
[12] Personal communications, Consumer Advocate Stephen Ward (Oct. 29, 2001), consumer consultant Barbara Alexander (Oct. 30, 2001).
[13] Arkansas Gas Utilities, 210 PUR4th 325 (Ark. PSC 2001).
[14] Dec. No. C01-207 in Colo. PUC Docket No. OIR-0835 (March 27, 2001).
[15] Savannah Electric Power Co., 210 PUR4th 335 (Ga. PSC 2001).
[16] Intermountain Gas Co., Order No. 28783 in Case No. INT-G-01-3 (Ida. PUC, July 13, 2001), 210 PUR4th, No. 2 at iv.
[17] Docket No. RMU-00-6 (Iowa Utils. Bd. June 21, 2000).
[18] Western Kentucky Gas Co., 210 PUR4th 331 (Ky. PSC 2001).
[19] Consumers Energy Co. (gas), 212 PUR4th 175 (Mich. PSC, 2001).
[20] Oklahoma Natural Gas Co., 211 PUR4th 230 (Okla. Corp. Comm. 2001).
[21] R. Linden, "Gas Price Prudence: From Hedge-and-Hope to Best Practice," Public Utilities Fortnightly at 34 (Oct. 1, 2001).